

February 3, 2009

DEANS OF SCHOOLS, COLLEGES, AND DIVISIONS
DEAN, INTERNATIONAL & AREA STUDIES
CHAIR, ENERGY & RESOURCES GROUP
DIRECTOR, NEUROSCIENCE INSTITUTE
VICE PROVOST FOR ACADEMIC PLANNING AND FACILITIES

Fiscal Year 2009-10 Operating Budget Process

This letter describes the key elements of the 2009-10 operating budget process for schools, colleges, and divisions reporting to the Executive Vice Chancellor and Provost (EVCP). Because the faculty FTE review for target year 2010-11 is again a separate process, these guidelines, instructions, and requirements pertain only to the 2009-10 operating budget for the fiscal year beginning July 1, 2009.

Budget Outlook and Resource Situation

This year the current financial picture is full of unknowns about our future. We know that the situation is severe, and that our funding may continue to decline for some time to come. Even in such an unclear and constrained budget environment, we must continue to make every provision to protect and preserve the comprehensive educational excellence of our institution, and to ensure that our programs continue to be accessible and affordable.

Recently the California Department of Finance (DOF) released the proposed 2009-10 California State Budget. This release assumed a deficit of \$14.8 billion in 2008-09 that increases to \$41.6 billion in 2009-10. The Governor's proposed solution is \$21 billion in expenditure cuts, \$15.8 billion in revenue increases, a \$5 billion shift of lottery revenue, \$4.7 billion from reimbursement warrants, and \$358 million in borrowing.

The Governor's initial proposal includes \$65.5 million in cuts for 2008-09 for UC (essentially negating the remainder of the May 2008 revise budget restoration for UC) and a permanent cut of \$65.5 million for 2009-10. Although the proposal has \$209.9 million allocated for the Higher Education Compact that was agreed upon in 2004 by the Governor and the University of California, the DOF later deleted \$209.9 million as an "unallocated reduction," thus eliminating all funding from the Compact for 2009-10. The Governor's budget recognizes a 9.3% increase in mandatory system-wide student fees for 2009-10 (an average of 10% in the education fee and 4.2% in the registration fee). Together with the increase in professional fees, these generate \$166 million for UC in 2009-10 and raise resident undergraduate fees from \$7,126 to \$7,788 per year. The proposed budget provides \$20 million to restart the State employer contribution to the UC retirement system, although this amount is insufficient under most restart scenarios being discussed.

Given the current economic crisis, it may be some time before a State budget is agreed upon and signed. However, under any reasonable scenario, there will be a significant funding gap and our

planning needs to anticipate this gap. The initial budget plan for 2009-10 would result in a net reduction of about \$65 million to the entire University of California. For the Berkeley campus, the proposed cut could translate into an approximately \$10 million permanent budget reduction. The campus will still be required to self-fund approximately \$35 million of incremental needs including faculty merits, purchased utilities, benefits, and retirement contributions. And because we will also need to address last year's \$15 million mid-year budget reduction, which we covered temporarily through borrowing, our total unfunded need for 2009-10 is expected to be close to \$60 million.

To help address this budget gap, we anticipate approximately \$30 million of additional revenue, through a combination of proposed student fee increases and a two percent increase in the campus administrative full costing rate, from four percent to six percent per year, as of July 1, 2009. These actions, if successful, will still leave a gap of \$20 to \$30 million. In the short term we anticipate generating significant savings across the campus through slow-downs in hiring, promotion of the START voluntary reduction in time program, and other cost-saving initiatives. Over the longer term, we must continue working together to identify and implement new, more efficient and cost-effective ways of doing business. We must streamline, consolidate, and restructure wherever possible, eliminating those services that are not absolutely critical to our mission.

Much work is already being done. Some of the initiatives currently under consideration or in process include the restructuring of the IT delivery model and of HR services, introducing an e-procurement purchasing system, replacing leased space with less expensive owned space, administrative clustering in academic and administration units, and the achievement of higher returns on our cash balances. We know these types of initiatives will take time to generate significant savings, and we expect campus managers will be able to use funds generated by the short-term cost-saving initiatives described above to address much of the budget shortfall on a temporary basis.

When I make my budget decisions it is not my intention to impose identical across-the-board budget reductions on all departments. However, for planning purposes, I would like you to consider the impact of an 8% permanent reduction on your organization, effective July 1, 2009, and the steps you would take to accommodate such a strategy (see Attachment A for the definition of "permanent budget" for these purposes). My final budget plan will allocate reductions that are variable, and your budget submission will help inform these decisions.

The anticipated budget reductions for 2009-10 will limit the number of new initiatives we can undertake next year. Funding decisions will emphasize projects that identify significant direct savings or increases in revenue to the campus. You should continue to use available reserves and carry-forward funds to eliminate deficits in accordance with the campus deficit policy, and to self-fund any new initiatives.

Given the severity of the financial outlook for the campus in the foreseeable future, we have decided to limit the total number of faculty searches in 2009-10 (for appointments effective July 1, 2010) to approximately 25.

While an overall faculty hiring slow-down of two to three years is expected to reduce the cost of recruitment start-up for new faculty, it is also likely to affect the ability of units to deliver their curriculum. At a recent Council of Deans meeting, I announced that my 2009-10 TAS allocations to your units would be at least equal to your 2008-09 allocation. I also indicated that our goal is to ensure that the campus fields a curriculum next year that is at least as large, and responsive to demand, as the curriculum delivered in 2007-08 before this year's budget cuts. Finally, I indicated that I would like to work with you to ensure that this takes place, by:

- (1) (re)configuring the curriculum to ensure maximal accommodation of student demand for gateway courses, service courses, graduation requirements (R&C, American Cultures, and American History & Institutions courses), foreign language courses, and major requirements;
- (2) ensuring that departments and deans prioritize TAS in expending their discretionary resources, including their Graduate Division block grants; and
- (3) negotiating selected increases in your EVCP TAS allocations. We remind you that, last year, the EVCP allocation came to 15% of the total amount of TAS expenditure on campus.

We are aware that decanal and/or departmental discretionary funds may be lower next year than they were last year, due to the combination of this year's budget cuts and rising costs. We are also aware that available salary savings in any decanal unit will likely vary from year to year. However the principle under which we are operating is that the undergraduate curriculum will be protected and even augmented, in light of the fact that undergraduate fees are rising annually to help us cover increasing costs in many areas.

In order to move us toward the goal of negotiating the level of EVCP TAS allocation to deans that will ensure delivery of a robust curriculum, I ask that you please:

- (1) work intensively with your departments to specify the size and shape of the curriculum required to meet the likely demand for undergraduate courses;
- (2) then identify the expected cost of fielding that curriculum, using lecturers or teaching post-docs, rather than more-expensive visiting professors, to cover courses that ladder faculty do not teach;
- (3) and finally, determine the financial capacity available to you and your departments to fund that curriculum.

I remind you of the e-mail we distributed at a recent Council of Deans meeting in which the Chair of Materials Science and Engineering announced that faculty leaves in the department would have to be staggered to ensure adequate curriculum coverage by ladder faculty. You may have analogous ideas about ways to maximize coverage without over-burdening the TAS budget.

Timeline


The schedule for the EVCP control unit faculty FTE and operating budget processes is provided below:

Faculty FTE call letter sent	November 18, 2008
FTE recruitment plans due	January 20, 2009
Notification of FTE recruitment authorizations	June 2009
Operating budget call letter sent	February 3, 2009
Budget plans due	March 9, 2009
Budget meetings	March 12 to April 10, 2009
Notification of operating budget commitments	Early June 2009

Budget Meetings

This year, budget meetings will be held in California Hall, with a focus as in previous years on issues important to your unit, including in particular your TAS needs, budget reduction strategies, and the planned uses of your reserves and carry forward balances. We will also want to discuss your initial responses to the budget reduction strategies outlined above. We are currently in the process of arranging those meetings.

If you have any questions or concerns, please contact Assistant Vice Chancellor Michael Glogowsky or the budget office analyst who works with your unit.



George W. Breslauer
Executive Vice Chancellor
and Provost

- cc: Vice Chancellor Brostrom
Acting Associate Vice Chancellor Costantinidis
Acting Assistant Vice Chancellor Glogowsky
Vice Provost Zedeck
Vice Provost Maslach
Chair McKee
Budget Office Staff

Attachments:

- Attachment A – Guidelines
- Attachment B – Budget Plans, Forms 1-3
- Attachment C – Activity Based Budgeting Approach (ABBA) Taxonomy
- Attachment D – December 30, 2008 Permanent Base Budgets